

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-08 FRB-03 INR-07 IO-13 NEA-10 NSAE-00 USIA-06
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 /102 W
-----034059 200526Z/12

P 200450Z SEP 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 1246
INFO AMEMBASSY PARIS PRIORITY

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E.O.11652: GDS
TAGS: EAID, JA
SUBJECT: JAPAN'S 1976 AID PERFORMANCE: DAC MEETING SEPTEMBER 21

1. SUMMARY. JAPAN'S AID VOLUME FELL IN 1976, AND TERMS IMPROVED ONLY BECAUSE LOAN VOLUME DROPPED WHILE TOTAL GRANT AID INCREASED. AVERAGE TERMS OF LOANS THEMSELVES WORSENED SLIGHTLY. RECENT JAPANESE GOVERNMENT STATEMENTS AND CURRENT FISCAL YEAR'S AID BUDGET GIVE GOOD REASON FOR HOPE OF RECOVERY FOLLOWED BY SUSTAINED UPTURN IN JAPANESE AID. THERE IS CONTINUING RESISTANCE WITHIN JAPANESE GOVERNMENT TO INCREASINGLY GENEROUS AID, HOWEVER, AND CONTINUING SUPPORT FROM OUTSIDE FOR SUCH GENEROSITY THUS MAY EXERT A PARTICULARLY USEFUL INFLUENCE DURING NEXT FEW YEARS. END SUMMARY.

2. EMBASSY'S COMMENTS ON JAPANESE AID PERFORMANCE IN 1976 FOLLOW FOR POSSIBLE USE IN DAC REVIEW SCHEDULED FOR SEPTEMBER 21.

3. VOLUME: IN 1976 JAPANESE OFFICIAL DEVELOPMENT
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ASSISTANCE (ODA) FELL FROM THE REVISED 1975 FIGURE OF 0.23 PCT OF GNP TO 0.20 PCT, REMAINING FAR BELOW THE 0.7 PCT SET AS A DAC STANDARD. DISBURSEMENTS FELL IN MONEY TERMS AS WELL, FROM ABOUT DOLS 1,147 MILLION TO ABOUT DOLS 1,105 MILLION, AND THEY DECLINED CONSIDERABLY MORE SHARPLY THAN THIS IN REAL TERMS AS WELL AS IN THE PROPORTION THEY REPRESENTED OF JAPANESE

GOVERNMENT EXPENDITURES. NEW GOJ AID COMMITMENTS DURING CALENDAR YEAR 1976 ALSO DECLINED, TO DOLS 1,477 MILLION FROM DOLS 1,636 MILLION. THE GOJ BUDGET FOR FISCAL YEAR 1977 (APRIL 1978 TO MARCH 1977) REPRESENTS AN INCREASE OF 22 PCT OVER THE AID BUDGET FOR THE PREVIOUS FY; JAPANESE GOVERNMENT BUDGET EXPENDITURES AS A WHOLE ARE TO RISE DURING CURRENT FISCAL YEAR BY 17\$. BUDGETED (NOT DISBURSED) AID FIGURE FOR CURRENT FY IS 0.28 PCT OF GNP, A SLIGHT INCREASE OVER LAST FY'S 0.2 PCT.

4. COMMENT: BECAUSE JAPANESE FISCAL YEAR AND CALENDAR YEAR ARE THREE MONTHS APART, AND BECAUSE JAPANESE AID BUDGET AND AID COMMITMENTS (WHICH ARE SPECIFIC AGREEMENTS UNDERTAKEN BY GOJ AID ADMINISTERING AGENCIES) DO NOT COINCIDE, ABOVE FIGURES ARE INDICATORS RATHER THAN COHERENT QUANTITATIVE SUMMARY OF JAPAN'S AID PROGRAM. AID BUDGET MAY BE ONLY PARTLY REFLECTED IN COMMITMENTS WHICH IN TURN MAY BE ONLY PARTLY REFLECTED IN DISBURSEMENTS. EACH OF THESE MEASURES NEVERTHELESS SHOWS DEFINITE DROP IN JAPANESE AID BETWEEN CALENDAR 1975 AND 1976. FISCAL 1977 BUDGET, HOWEVER, APPEARS TO FORECAST FAIRLY SUBSTANTIAL RECOVERY IN 1977.

5. BECAUSE OF SHARE WHICH DIFFICULTIES AND DELAYS
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IN FUND COMMITMENT AND DISBURSEMENT PROCESSES HAVE BORNE IN CAUSING POOR JAPANESE AID PERFORMANCE, JAPANESE NOW ARE EMPHASIZING THE EXPEDITIOUS SPENDING OF BUDGETED MONEY AS WELL AS THE EXPANSION OF THE AID BUDGET ITSELF. FOR EXAMPLE, EASILY DISBURSABLE COMMODITY AID, AID TO UPPER-INCOME RANGE OF DEVELOPING COUNTRIES (WHICH OFTEN HAVE BOTH FUNDS AND INFRASTRUCTURE NECESSARY TO DO OWN PART IN PROJECTS WITH LITTLE DELAY). AND AID EARMARKED FOR LOCAL-COST FINANCING. EXAMINERS MAY WISH OBTAIN MORE PRECISE PICTURE OF HOW EFFECTIVE JAPAN EXPECTS THESE MEASURES TO BE IN CAUSING HER DISBURSEMENTS TO RISE IN CALENDAR YEAR 1977 OVER CALENDAR 1976. AS SHE COMMITTED HERSELF AT THE CIEC MEETING TO (AT LEAST) DOUBLE HER AID TO LDCS WITHIN FIVE YEARS, EXAMINERS MAY WISH ALSO TO INQUIRE WHAT KIND OF "GROWTH PATH" JAPAN SEES FOR HER AID DISBURSEMENTS DURING THAT PERIOD OR AT LEAST DURING ITS EARLIER PART.

6. TOTAL CAPITAL FLOW FROM JANA TO LDCS ROSE MARKEDLY IN CALENDAR 1976 TO DOLS 2,989 MILLION FROM 1975 FIGURE OF DOLS 1,742 MILLION. THIS GAIN WAS PRIMARILY RESULT

OF WHARP 1976 RECOVERY TO DOLS 1,546 MILLION OF PRIVATE DIRECT INVESTMENT FROM 1975 RECESSION FIGURE OF DOLS 273 MILLION, BUT EXPORT CREDIT INCREASES, GOVERNMENTAL AS WELL AS PRIVATE, ALSO CONTRIBUTED TO RISE. EXAMINERS MAY WISH TO INQUIRE WHETHER IN FUTURE JAPANESE GOVERNMENT MAY FIND IT PRACTICAL TO INCREASE WITH THE SAME RAPIDITY FUNDS IT MAKES AVAILABLE ON CONCESSIONAL TERMS, AS FUNDS IT MAKES AVAILABLE ON QUASI - COMMERCIAL TERMS TO PROMOTE JAPANESE EXPORTS THROUGH EXPORT - IMPORT BANK. (MITI PROJECTS THESE TO DOUBLE IN CURRENT FISCAL YEAR DESPITE JAPAN'S LARGE EXISTING CURRENT ACCOUNT SURPLUS). ALTHOUGH JAPAN'S AID NOW IS LARGELY LDC-UNTYED IN ACCORDANCE WITH DAC RECOMMENDATIONS, EXAMINERS MAY WISH TO INQUIRE WHETHER IN VIEW OF

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JAPAN'S PAYMENTS SURPLUS AND OF LIMITED RESULT (ABOUT 10 PCT OF AFFECTED PROCUREMENT IS FROM LDCS) OF THIS CONCESSION, FURTHER UNTYING OF JAPAN'S AID COMMITMENTS MIGHT BE APPROPRIATE.

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OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 /102 W
-----034136 200526Z /11

P 200450Z SEP 77
FM AMEMBASSY TOKYO
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INFO AMEMBASSY PARIS PRIORITY

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7. AVERAGE TERMS ON WHICH JAPANESE AID WAS COMMITTED IN 1976 SHOW 74.9 PERCENT GRANT ELEMENT, UP FROM REVISED

FIGURE OF 70.2 PERCENT A YEAR AGO BUT STILL WELL BELOW DAC-PRESCRIBED LEVEL OF 84 PERCENT. RISE WAS DUE TO INCREASE OF DOLS 133 MILLION IN GRANT COMMITMENTS COMBINED WITH FALL OF DOLS 292 MILLION IN LOAN COMMITMENTS, WHICH IN 1976 AVERAGED A GRANT ELEMENT (51.5 PERCENT) SLIGHTLY LOWER THAN THE PRECEDING YEAR'S 53.9 PERCENT. (THE CURRENT BUDGETARY ARRANGEMENT, WHICH LEAVES THE JAPANESE CONCESSIONAL LOAN AGENCY - THE OVERSEAS ECONOMIC COOPERATION FUND - NO ALTERNATIVE TO BORROWING A HIGH PROPORTION OF ITS FUNDS, PLACES A HIGH MINIMUM ON THE AVERAGE INTEREST RATE THE OECF CAN CHARGE). THE GRANT INCREASE WAS DUE ENTIRELY TO A MAJOR INCREASE (DOLS 145 MILLION OR 41.2 PERCENT) IN AID EXTENDED BY JAPAN THROUGH MULTILATERAL INSTITUTIONS. BILATERAL GRANT AID, MAINLY BECAUSE OF REPARATIONS PHASEOUT, REGISTERED A SLIGHT DECREASE. ONE IMPEDIMENT TO EXPANDING GRANTS IS THAT FOREIGN MINISTRY'S GRANT DIVISION MUST TAKE CARE OF ADMINISTRATION OF JAPANESE AID GRANTS AS WELL AS OF POLICY MATTERS AFFECTING

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8. EXAMINERS MAY WISH TO INQUIRE WHAT DIRECTION BILATERAL GRANT PROGRAM MAY TAKE IN THE POST REPARATION ERA AND PARTICULARLY TO INQUIRE WHETHER JAPAN MAY CONSIDER BASIC HUMAN NEEDS A USEFUL FOCUS FOR GRANT ACTIVITY.

9. GEOGRAPHICAL DISTRIBUTION OF JAPAN'S 1976 AID SHOWED USUAL HEAVY PREDOMINANCE OF ASIAN RECIPIENTS. THEIR SHARE OF TOTAL, AFTER DECREASING FOR SEVERAL CONSECUTIVE YEARS TO 75.1 PERCENT IN 1976, ROSE AGAIN IN 1976 TO 77.4 PERCENT. EXAMINERS MAY WISH TO INQUIRE WHETHER JAPAN IN HER PLANS FOR INCREASING AID MAY ALTER HER DISTRIBUTION TO GIVE OTHER DEVELOPING AREAS A SOMEWHAT LARGER SHARE.

10. SECTORAL DISTRIBUTION OF AID SHOWS MARKED DECLINE IN ALREADY VERY SMALL JAPANESE GOVERNMENT COMMITMENTS TO PROJECT ASSISTANCE FOR BASIC HUMAN NEEDS. EDUCATION, HEALTH, AND SOCIAL INFRASTRUCTURE AND WELFARE PROJECTS RECEIVED DOLS 5 MILLION IN FY 1976 COMMITMENTS AS AGAINST DOLS 15 MILLION THE PRECEDING YEAR, AND DROP IN AGRICULTURE AND FORESTRY PROJECT COMMITMENTS - DOLS 68 MILLION TO DOLS 27 MILLION - WAS ALMOST AS PRECIPITOUS. (THESE FIGURES EXCLUDE TECHNICAL ASSISTANCE, WHICH ROSE FROM DOLS 99 TO DOLS 144 EXAMINERS MAY WISH MILLION DOLLARS.) INQUIRE WHETHER JAPAN IN ACCORDANCE WITH HER SUPPORT RECORDED IN

PG. 62-66 OF HER DAC MEMORANDUM FOR BASIC HUMAN NEEDS
AID, PLANS SUBSTANTIAL INCREASE IN SUCH AID.

11. COMMENT: JAPAN'S AID PROGRAM IN 1977 APPEARS
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TO BE BEGINNING WHAT MAY BECOME A SUBSTANTIAL AND
SUSTAINED INCREASE. THERE REMAIN STRONG
FORCES WITHIN THE JAPANESE GOVERNMENT WHICH WILL
RESIST SIGNIFICANT INCREASES IN AID AMOUNTS, IMPROVE-
MENTS IN AID TERMS, AND UNTYING OF PROCUREMENT. IT
WILL REMAIN IMPORTANT IN THE FORESEEABLE FUTURE TO
APPLY ALL APPROPRIATE PRESSURE IN SUPPORT OF THOSE
WITHIN JAPANESE GOVERNMENT WHO FAVOR AN INCREASINGLY
GENEROUS AID PROGRAM.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MEETINGS, FOREIGN ASSISTANCE
Control Number: n/a
Copy: SINGLE
Sent Date: 20-Sep-1977 12:00:00 am
Decapton Date: 01-Jan-1960 12:00:00 am
Decapton Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977TOKYO14456
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770341-0002
Format: TEL
From: TOKYO OECD
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19770942/aaaabjai.tel
Line Count: 244
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: e8828741-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 17-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1201733
Secure: OPEN
Status: NATIVE
Subject: JAPAN'S 1976 AID PERFORMANCE: DAC MEETING SEPTEMBER 21
TAGS: EAID, JA, XX
To: STATE
Type: TE
vdkgvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/e8828741-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009